

Message Text

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PAGE 01 STOCKH 00369 01 OF 02 261207Z

ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 CIAE-00 DODE-00 PM-04 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00 XMB-02
OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 CEA-01
AGRE-00 /101 W

-----261255Z 050498 /10

R 261100Z JAN 77

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 9633

INFO AMEMBASSY

AMEMBASSY HELSINKI

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY BONN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

USMISSION EC BRUSSELS

AMEMBASSY PARIS

LIMITED OFFICIAL USE SECTION 1 OF 2 STOCKHOLM 0369

E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: THE GOVERNMENT OF SWEDEN -- A LUCKY BORROWER?

REF: STOCKHOLM 155

SUMMARY: THE DECLARATION IN THE BUDGET THAT THE SWEDISH
GOVERNMENT WOULD OFFICIALLY BORROW INTERNATIONALLY FOR THE
FIRST TIME SINCE EARLY IN THIS CENTURY HAS BROUGHT A FLOOD
OF BANKERS INTO STOCKHOLM SEEKING A PART OF THE ACTION.

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PAGE 02 STOCKH 00369 01 OF 02 261207Z

ALTHOUGH THE GOVERNMENT'S BUDGET PROPOSAL OF JANUARY 10 DID
NOT SPECIFY AMOUNTS, WE EXPECT THAT TOTAL OFFICIAL BORROWING
WILL BE BETWEEN \$1 AND 2 BILLION. DETAILS ARE NOT AT ALL
CLEAR AT THIS STAGE, BUT THE FOLLOWING ROUNDUP INDICATES
GENERAL SWEDISH THINKING THAT THEY ARE ENTERING THE
MARKET AT A VERY FAVORABLE TIME AND THAT THEIR INTER-
NATIONAL CREDIT RATING IS AND WILL REMAIN HIGH.

ACCORDING TO EMBASSY SOURCE, SWEDES WILL DEFINITELY NOT
RPT NOT SEEK DIRECT LOANS FROM OPEC SURPLUS NATIONS.
END SUMMARY.

1. AMOUNT AND TIMING. THE SWEDISH GOVERNMENT ESTIMATES
THE SWEDISH ECONOMY WILL NEED TO BORROW SOMETHING BETWEEN
\$3.5 AND 4 BILLION ABROAD THIS YEAR. ALTHOUGH A FINAL DECISION
AS TO HOW MUCH THE GOVERNMENT WILL ULTIMATELY BORROW
DIRECTLY MUST AWAIT DEVELOPMENTS, WE DO KNOW THAT CURRENT
DISCUSSIONS REVOLVE AROUND SUMS OF FROM \$1 AND 2 BILLION.
WE HAVE HEARD INFORMED ESTIMATES THAT THE FIRST BORROWING
ACTION COULD TAKE PLACE WITHIN TWO TO THREE MONTHS, BUT
THE GOVERNMENT IS NOT RUSHING HEADLONG INTO IT. RIKSBANK
GOVERNOR NORDLANDER SAID, "THIS WILL NOT BE A RUSH JOB." WE
WOULD BE VERY SURPRISED IF THE GOVERNMENT TOOK ACTION
BEFORE CURRENT NATION-WIDE LABOR NEGOTIATIONS REACH A
CONCLUSION. IF THERE IS EVEN A REMOTE POSSIBILITY THAT
RAPIDLY RISING LABOR COSTS MIGHT FORCE A DEVALUATION OF
THE KRONA, THE GOVERNMENT WOULD CERTAINLY WANT TO DELAY
BORROWING.

2. CHANNEL. WE UNDERSTAND NEGOTIATIONS WILL BE HANDLED
BY THE RIKSBANK IN COOPERATION WITH THE NATIONAL DEBT
BOARD (THE ENTITY WHICH HAS GUARANTEED IN THE NAME OF
THE KING PAST INTERNATIONAL LOANS TO SWEDISH FIRMS).
THE INSTRUMENTS FOR CARRYING OUT THE BORROWING WILL BE
THE THREE LARGEST SWEDISH BANKS. THE SKANDINAVISKA
ENSKILDA BANK (SEB) HAS EXTENSIVE EXPERIENCE IN INTER-
NATIONAL MARKETS, AND THE SVENSKA HANDELSBANK IS ONLY A
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PAGE 03 STOCKH 00369 01 OF 02 261207Z

LITTLE LESS WELL KNOWN. THE GOVERNMENT-OWNED POST O.
CREDIT BANK, (PK-BANK), ALTHOUGH LESS EXPERIENCED, WILL
CERTAINLY PLAY A PART. ACCORDING TO FINANCIAL CIRCLES
HERE, FOUR MAJOR US BANKS, TWO OR THREE GERMAN BANKS, AND
SEVERAL SWISS AND UK BANKS WILL ALMOST CERTAINLY BE IN-
VOLVED IN ANY SYNDICATION OF THE LOANS.

3. STRUCTURE. THE LIKELIHOOD, ACCORDING TO FINANCIAL
SOURCES, IS THAT \$300 TO 400 MILLION WILL BE FINANCED ON
THE EUROBOND MARKET, WITH REMAINDER HANDLED BY MAJOR
BANK LOANS THROUGH ONE OR TWO SYNDICATES. THE RIKSBANK
MAY DECIDE TO HOLD BANK MONEY BELOW \$1 BILLION AND TO
BORROW ANYTHING OVER \$1.3 BILLION IN OTHER BOND MARKETS.

4. COST. GOVERNOR NORDLANDER IN PUBLIC AND OTHER RIKSBANK
SOURCES IN PRIVATE HAVE SAID THAT SWEDEN IS VERY LUCKY TO
BE BORROWING DURING A TIME OF HIGH LIQUIDITY AND RELATIVELY
LOW INTEREST RATES (WE EMPHASIZE RELATIVELY). RIKSBANK IS
EXPECTING TO PAY AROUND THREE-QUARTERS TO SEVEN-EIGHTS

ABOVE LIBOR FOR BANK BORROWING. SOME BANKERS HERE BELIEVE THE COST COULD BE SLIGHTLY HIGHER. THE \$500 MILLION EC LOAN NOW UNDERWAY WILL PROBABLY BE THE PRICE LEADER, AND SOME THINK THE PRICE MIGHT BREAK THROUGH THE ONE PERCENT "BARRIER." SOME EXPECT THAT STIMULATION OF THE US ECONOMY WILL LEAD TO HIGHER INTEREST RATES WITHIN THREE TO FIVE MONTHS. AT ANY RATE, THE US BANKING SOURCES WITH WHOM WE HAVE SPOKEN BELIEVE, AS USUAL, THE KEY FOR THEM WILL BE COMMISSIONS AND FEES, NOT THE BASIC RATE. THE LATTER WILL ALMOST CERTAINLY BE NEGOTIABLE AT SIX MONTHS INTERVALS GIVEN RECENT HISTORY.

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PAGE 01 STOCKH 00369 02 OF 02 261210Z
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LIMITED OFFICIAL USE SECTION 2 OF 2 STOCKHOLM 0369

5. DURATION. WE WOULD EXPECT MATURITIES TO BE OF SEVEN YEARS OR MORE. A GOOD BIT OF PRIVATE, MEDIUM TERM SWEDISH INTERNATIONAL DEBT WILL BEGIN FALLING DUE IN

1980 AND THE GOVERNMENT WILL CERTAINLY WISH TO SPREAD
THE EXCHANGE BURDEN AS FAR INTO THE FUTURE AS POSSIBLE.

6. SWEDEN'S CREDIT RATING. THE STOCKHOLM VIEW IS THAT
SWEDEN IS STILL IN AN IMPECCABLE POSITION INTERNATIONALLY.
ACCORDING TO SVENSKA HANDELSBANK FIGURES, SWEDEN'S NET
INTERNATIONAL DEBT WAS AT ZERO IN 1976 (NET CREDITOR POSITION
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PAGE 02 STOCKH 00369 02 OF 02 261210Z

WAS ABOUT THREE PERCENT OF GDP IN 1975). THE SAME SOURCE
POINTS OUT THAT GROSS FOREIGN BORROWING BY SWEDEN IN
1976 WAS ONLY AROUND 24 PERCENT OF THE VALUE OF SWEDISH
EXPORTS. GOVERNMENT BORROWING OF AS MUCH AS \$2 BILLION
WOULD NOT UPSET THE BALL GAME, ACCORDING TO MOST
OBSERVERS, EVEN THOUGH TOTAL NET SWEDISH BORROWING MUST
APPROACH \$4 BILLION. AS HANDELSBANK DIRECTOR JAN EKMAN
PUT IT, "WE ARE STILL AT THE TOP OF THE FORM."

7. EMBASSY HAS ALSO ASKED RIKSBANK SOURCES WHETHER THEY
WERE CONSIDERING BORROWING MONEY DIRECTLY FROM OPEC
SURPLUS COUNTRIES. THE ANSWER WAS A RESOUNDING NO. THE
SWEDES ARE NOT INTERESTED IN RUNNING THE RISK OF
POLITICAL INVOLVEMENT WHICH THEY FEEL DIRECT DEALINGS
MIGHT ENTAIL. THEY WOULD NOT, OUR SOURCE INDICATED,
BE AVERSE TO RECYCLING SOME PETRODOLLARS THROUGH
FINANCIAL INTERMEDIARIES. THE FACT THAT THEY MIGHT
NEED TO PAY SEVERAL MILLION DOLLARS IN ADDITIONAL
INTEREST PAYMENTS FOR SUCH FINANCIAL INTERMEDIATION
WOULD NOT BE SIGNIFICANT COMPARED TO TOTALS INVOLVED.
SMITH

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